



Golf Course Valuation – The Income Approach

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Golf Course Valuation – The Income Approach

- Basic Definitions and Information
- Other Valuation Methods
- Other



Golf Course Valuation – The Income Approach

- HEA 1001 – 2009 (ss) stipulates that for assessments after January 15, 2010 (i.e. starting with the March 1, 2010 assessment), the true tax value of a golf course will be determined by applying the income capitalization approach. The income approach should provide for the uniform and equal assessment of golf courses of similar grade quality and play length. The value of personal property, intangible property, and the income derived from personal property or intangible property is excluded.



Golf Course Valuation – The Income Approach

- Golf carts are considered to be personal property; hence, the DLGF has interpreted this statute to exclude the income derived from the rental of golf carts from the income approach to valuation. The DLGF believes this would be applicable to pro shop income as well. This could have a significant impact on the valuation of the golf courses. Assessing officials should closely review the income and expense statements of the taxpayer to ensure golf cart rental income and pro shop income is not included in the valuation.



Golf Course Valuation – The Income Approach

For assessment dates after January 15, 2010 and before March 1, 2012, a township assessor (if any) or the county assessor shall gather and process information from the owner of a golf course to carry out these provisions. For assessment dates after February 28, 2012 (i.e. the March 1, 2012 assessment date), the DLGF is to establish uniform income capitalization tables and procedures for the assessment of golf courses. Assessing officials shall use these tables and procedures to assess, reassess, and annually adjust the assessed values of golf courses.



Golf Course Valuation – The Income Approach

- The Income Capitalization approach is one of three approaches to the valuation of real property. The appraiser derives a value indication for income-producing property by converting the anticipated benefits through ownership of property. (Source: International Association of Assessing Officers – Course #102 “Income Approach to Valuation”).
- It is based on the economic principles of:
 - Anticipation
 - Change
 - Supply and demand and competition
 - Substitution
 - Balance and contribution



Golf Course Valuation – The Income Approach

Real estate competes with other investments for the investor's dollars. All investors want a return on their investment. All investors want a return of their investment.

- “IRV” – A Generic Capitalization Formula
- $I \text{ (income)} = \text{Rate} \times \text{Value}$
- $R \text{ (rate)} = \text{Income}/\text{Value}$
- $V \text{ (value)} = \text{Income}/\text{Rate}$



Golf Course Valuation – The Income Approach

- For example, a corner lot in a business district is used as a parking lot. The monthly income earned is \$1,250. The owner's required rate of return for this type of property is 7.5% per year. What is the value of this property?

Monthly Income	\$1,250
	<u>x 12</u>
Annual Income	\$15,000

IRV Formula: $V = I/R$ $\$15,000/.075 = \$200,000$

Capitalization can be defined as the process to convert income into an estimate of value.



Golf Course Valuation – The Income Approach

- **Basis of Income:**

For a golf course, there may be several different sources of income, including green fees, membership dues, concessions, and other miscellaneous sources.



Golf Course Valuation – The Income Approach

■ Income and Expense Statement:

Reconstructed from the owner's statement. Format:

- Gross Income Estimate (potential gross income)
- Vacancy and collection loss (derived from market)
- Miscellaneous Income
- Effective Gross Income
- Allowable Expenses
 - Operating
 - Replacement Reserves
 - Real Estate taxes (deducted under certain conditions)



Golf Course Valuation – The Income Approach

- **Allowable Expenses continued:**
 - Management fees/expense
 - Insurance
 - Salaries
 - Benefits
 - Utilities
 - Advertising
 - Repairs
 - Supplies
 - Legal and Accounting Fees
 - Miscellaneous Expenses
 - Replacement Reserves



Golf Course Valuation – The Income Approach

- **Non-allowable expenses:**
 - Depreciation (reflected in the recapture rate)
 - Capital improvements
 - Franchise fees and special corporation costs
 - Owner's personal expenses (income taxes, etc.)
 - Debt service (principal and interest on mortgage)
 - Payments on loans for capital improvements
 - Real Estate taxes (not deducted as an expense under certain conditions – reflected in the effective tax rate).



Golf Course Valuation – The Income Approach

- Total Operating Expenses
- Replacement Reserves
- Total Expenses

- Net Operating Income



Golf Course Valuation – The Income Approach

■ Income and Expense Statement for the Duffer's Paradise Golf Course:		
■ Gross Income		\$500,000
■ Collection Loss (estimate 2%)		<u><\$10,000></u>
■ Effective Gross Income (EGI)		\$490,000
■ Expenses:		
– Management (5% of EGI)	\$24,500	
– Employees' salaries	\$80,000	
– Employees' benefits	\$2,500	
– Insurance	\$10,000	
– Utilities	\$4,000	
– Water	\$10,000	
– Repairs	\$12,000	
– Supplies (e.g. seed, fertilizer)	\$300,000	
– Legal & Accounting Fees	\$4,000	
– Miscellaneous Expense	<u>\$3,000</u>	
Total Expenses	\$450,000	
Net Operating Income (NOI)		\$50,000



Golf Course Valuation – The Income Approach

■ Capitalization Rate:

Determining the Net Operating Income is a key determinant in establishing the value of a property in the income approach. The other key component that can have a significant effect on the total value of the property is the capitalization rate.

We will focus on the “Overall Capitalization Rate” (OAR) which expresses the relationship between net operating income and the market value of the property.



Golf Course Valuation – The Income Approach

Capitalization Rate continued:

It can be developed using the following:

- Market Extraction
- Effective Tax Rate
- Mortgage & Equity
- Discounted Cash Flow



Golf Course Valuation – The Income Approach

Capitalization Rate continued:

- Contrary to popular belief, the OAR is not always “10”!
- The OAR reflects risk, liquidity (or lack thereof), potential for growth in net income, and general requirements of the investor.
- To determine the value of the property (simplistically), divide the Net Operating Income by the Overall Rate.



Golf Course Valuation – The Income Approach

■ Duffer's Paradise Golf Course:

For example (using our previous NOI):

- \$50,000 divided by a 7% OAR = \$714,286
- \$50,000 divided by a 10% OAR = \$500,000
- \$50,000 divided by a 12% OAR = \$416,667



Golf Course Valuation – The Income Approach

So now that we know the capitalization rate can have a significant impact on the value of the property, what other things can make a difference?

- **Replacement Reserves:** This allows a fund to be collected to replace items that will wear out. For example, an apartment complex may establish a replacement reserve for the roof, furnace, water heater, carpet, etc. These items are deducted after the operating expenses (included in the total expenses).
- For a golf course, these items could possibly include a roof for the clubhouse, a water heater, furnace, etc.
- The amount of income and expenses are the other things that will obviously have an impact on the bottom-line.



Golf Course Valuation – The Income Approach

- **Steps to Determine Value:**
 - Determine Potential Gross Income
 - Calculate Vacancy & Collection Loss, plus miscellaneous income
 - Effective Gross Income
 - Deduct Expenses and Replacement Reserve



Golf Course Valuation – The Income Approach

- **Steps to Determine Value continued:**
 - Net Operating Income
 - Capitalize
 - Does one size fit all – not necessarily!



Golf Course Valuation – The Income Approach

■ Other Valuation Approaches: Cost Approach

2002 Reassessment Guidelines

- Data Collection of Courses:
 - Clubhouse
 - Facilities/Pool/Tennis
 - Parking
 - Maintenance/Support Buildings



Golf Course Valuation – The Income Approach

- Data Collection of Courses continued:
 - Tees – Size/Difficulty/Stations per hole
 - Fairways – Width/Irrigation Type/Grass Type/Condition
 - Bunkers – Size/Number/Difficulty
 - Greens – Size/Number/Condition
 - Rough – Irrigation Type/Area
 - Practice Facilities – Size/Maintenance
 - Number of Rounds played for last three years



Golf Course Valuation – The Income Approach

- Data Collection of Courses continued:
 - Fee Schedule
 - Public vs. Private?
 - Who was the architect?
 - Last major renovation?
 - Initiation fees/dues (Social only)?
 - Obtain Scorecard (Should have par & slope)



Golf Course Valuation – The Income Approach

■ Guidelines Pricing Sheet:

- Price by grade per hole
- Delete land under course value @\$1,050 per acre
- Apply the appropriate physical and/or external depreciation
- Add value of other improvements
- Add land value
- Adjust to Market Value-in-Use



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Grade AA (Base Cost - \$163,000 per hole)

- Superior Quality, Professional Championship Design
- 18 holes on 180 acres
- Rolling and/or lake terrain
- 7,200 yards long
- Rated par of 72
- Automated sprinklers, 10,000 sq. ft. tiled greens, 3 tees per hole
- Average 3 bunkers per hole
- Good quality paved roadways



Golf Course Valuation – The Income Approach

Grade A (Base Cost - \$118,000 per hole)

- Excellent quality, designed for championship play
- 18 holes on 160 acres
- Rolling and/or lake terrain
- 7,200 yards long
- Rated par of 72
- Automatic sprinklers, 8,000 sq. ft. tiled greens
- 2 or 3 tees per hole, average 3 bunkers per hole
- Good quality paved roadways



Golf Course Valuation – The Income Approach

Grade B (Base Cost - \$73,000 per hole)

- Good quality private club
- 18 holes on 130 acres
- Rolling terrain
- 6,400 yards long
- Rated par of 70
- Automatic sprinkled greens, manual fairway sprinkled
- 5,000 sq. ft. tiled greens, 2 tees per hole
- Average 2 bunkers per hole
- Good quality paved roadways



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Grade C (Base Cost - \$50,000 per hole)

- Average quality public or municipal type course
- 18 holes on 110 acres
- Primarily flat terrain
- 6,000 yards long
- Rated par of 67 to 70
- Semi-Automatic sprinkler system
- Small tees and greens with few bunkers
- Average quality paved or gravel roadways



Golf Course Valuation – The Income Approach

Grade D (Base Cost - \$23,000 per hole)

- Fair quality course
- 18 holes on 90 acres
- Flat terrain
- 5,400 yards long
- Rated par of 64 to 67
- Manual sprinkler system
- Small tees and greens with few bunkers
- Gravel roadways



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Short Play Courses:

Executive Course (Base Cost - \$44,400 per hole)

- 18 holes on 50 to 60 acres
- 4,600 yards long with sprinklers

Par 3 Course (Base Cost - \$30,000 per hole)

- 18 holes on 30 to 40 acres
- 2,800 to 3,000 yards long with sprinklers



Golf Course Valuation – The Income Approach

■ Short Play Courses continued:

Pitch and Putt Course (Base Cost - \$22,800 per hole)

- 9 holes on 10 to 15 acres
- 1,400 to 1,500 yards long with sprinklers



Golf Course Valuation – The Income Approach

Golf Course Land Values:

- Determine the number of acres under the holes
- Multiply by \$1,050 (or the value prescribed by the DLGF)
- Subtract that amount from Golf Course hole value
- Apply \$1,050 per acre to the land value portion of the parcel



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Pricing Example:

“B” Grade, 18 holes, 126 acres, Built in 1980, “Average” Condition

- $\$73,000 \times 18 = \$1,314,000$
- $126 \text{ acres} \times \$1,050 = \$132,300$
- $\$1,314,000 - \$132,300 = \$1,181,700$
- 15% Depreciation (From the Guidelines – see <http://www.in.gov/dlgf/local/realproperty.html>)
= **\$1,004,400**



Golf Course Valuation – The Income Approach

Sales Comparison Approach:

The third approach or method in determining the value of real property is the sales comparison approach. It estimates the total value of the property directly by comparing it to similar, or comparable, properties that have sold in the market.



Golf Course Valuation – The Income Approach

Sales Comparison Approach continued:

All three approaches (Income, Cost, and Sales Comparison), when properly processed, should produce approximately the same estimate of value. Fee appraisers use all three approaches when appraising individual properties. However, assessing officials are faced with the responsibility of valuing all properties within their jurisdictions during a reassessment and often times do not have the data or time to apply all three approaches to each property.



Golf Course Valuation – The Income Approach

- The Bottom-line:
- **SECTION 89. IC 6-1.1-4-42 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2009]:**
Sec. 42. (a) This section applies to assessment dates after January 15, 2010.
(b) As used in this section, "golf course" means an area of land and yard improvements that are predominately used to play the game of golf. A golf course consists of a series of holes, each consisting



Golf Course Valuation – The Income Approach

of a teeing area, fairway, rough and other hazards, and the green with the pin and

(c) The true tax value of real property regularly used as a golf course is the valuation determined by applying the income capitalization appraisal approach. The income capitalization approach used to determine the true tax value of a golf course must:

(1) incorporate an applicable income capitalization method and appropriate capitalization rates that are developed



Golf Course Valuation – The Income Approach

and used in computations that lead to an indication of value commensurate with the risks for the subject property use;

(2) provide for the uniform and equal assessment of golf courses of similar grade quality and play length; and

(3) exclude the value of personal property, intangible property, and income derived from personal or intangible property.



Golf Course Valuation – The Income Approach

(d) For assessment dates after January 15, 2010, and before March 1, 2012, a township assessor (if any) or the county assessor shall gather and process information from the owner of a golf course to carry out this section in accordance with the rules adopted by the department of local government finance under IC 4-22-2.



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(e) For assessment dates after February 28, 2012, the department of local government finance shall, by rules adopted under IC 4-22-2, establish uniform income capitalization tables and procedures to be used for the assessment of golf courses. The department of local government finance may rely on analysis conducted by a state educational institution to develop the income capitalization tables and procedures required under this section.



Golf Course Valuation – The Income Approach

Assessing officials shall use the tables and procedures adopted by the department of local government finance to assess, reassess, and annually adjust the assessed value of golf courses.



Golf Course Valuation – The Income Approach

(f) The department of local government finance may prescribe procedures, forms, and due dates for the collection from the owners or operators of golf courses of the necessary earnings, income, profits, losses, and expenditures data necessary to carry out this section. An owner or operator of a golf course shall comply with the procedures and reporting schedules prescribed by the department of local government finance.



Contact The Department

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